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PRECAMBRIAN SHIELD
RESOURCES LIMITED

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ANNUAL REPORT
1978

PRECAMBRIAN SHIELD RESOURCES LIMITED

ANNUAL REPORT 1978

For the Year Ending November 30, 1978

Precambrian Shield Resources Limited

incorporated under the laws of the Province of British Columbia

Twelfth Annual Report

Directors

Earl E. Curry,
President

Walter E. Clarke,
P.Eng., (Geology)

John D. Curry,
Professional Geologist

Howard R. Lowe,
P.Eng., (Petroleum)

Stewart D. McGregor,
Barrister & Solicitor

Theodore H. Renner,
P.Eng., MBA

Officers

Earl E. Curry,
President

George R. D. Goulet,
Secretary

Howard R. Lowe,
Vice-President

Theodore H. Renner,
Executive Vice-President

Morgan H. York,
*Vice President &
Assistant Secretary*

Auditors Solicitors

Ernst & Ernst, Edmonton
McLaws & Company, Calgary

Registrar and Transfer Agent

Guaranty Trust Company of Canada,
Vancouver-Toronto-Calgary

Bankers

The Bank of Nova Scotia,
Edmonton

Listing Principal Office

Toronto Stock Exchange
11th Floor Petroleum Plaza,
North Tower
9945 - 108 Street
Edmonton, Alberta T5K 2G6

Annual Meeting

The annual meeting of the
shareholders will be held
on May 28th, 1979 at 11:00 a.m.
in Salon 1610, Holiday Inn,
107 Street and 100 Avenue,
Edmonton, Alberta

Report of the Directors

To the Shareholders:

The year 1978 was important to the shareholders of Precambrian Shield Resources Limited and should prove to be the period in which a sound base was established for growth over the next several years.

In prior years, Precambrian's activities were primarily in mining exploration projects. However a depressed mining industry required your Management to look in new directions for a more balanced base. The oil and gas industry has provided an attractive complement. During the past year, the Company has concluded a number of agreements which have provided us with exposure to numerous oil and gas plays involving both exploration and production. These oil and gas activities were highlighted by:

- 1) Acquisition of a wholly owned subsidiary, Howard Resources Ltd. Howard's main assets are centered in the West Pembina area of Alberta where it holds significant contracted gas reserves in the ETA Lake field as well as pooled interests in the deep rights under some 14,200 acres having Nisku D2 oil potential.
- 2) The interests held by Precambrian at ETA Lake and other West Pembina properties, as a result of the Howard acquisition, were significantly increased by the purchase of additional interests from a private U.S. company for cash.
- 3) A substantial increase in the Company's land position by participation in the purchase of several leases and licences and through negotiation of a number of farm-in agreements during the year.
- 4) During the year ended November 30, 1978, Precambrian participated in the drilling of 15 wells, 11 of which were completed as gas wells. Since the year end, a further 8 wells in which the Company holds interests were drilled, 5 of which were successfully completed as gas wells.
- 5) 11 of the above gas wells are located in Eastern Alberta and are subject to an existing gas purchase contract. Precambrian entered into a joint venture agreement during the year that provides for a major land acquisition and drilling program, and it is expected an additional 30 wells will be drilled in 1979 within this gas contract area.

The above mentioned oil and gas activity demonstrates that considerable momentum has developed in a short time and we have every reason to believe this will accelerate as our capability expands.

In view of the much improved mining climate, due mainly to higher precious and base metal prices, Precambrian will expend significantly more funds on mining exploration in 1979 than in the past few years. In addition to our participation in mining joint ventures, operated by others, the Company has 2 geological engineers on staff to head a number of Company operated projects. Some of these projects are of a "grass roots" nature but show promise as a result of preliminary exploratory work.

Further information on oil, gas and mining activities as well as the Company's real estate interests are covered in detail within the body of this report.

Your Company is in excellent financial position. A rights offering in the Spring of 1978 was successful. Although this offering was not underwritten, some 99.6% of the rights were exercised providing Precambrian with \$1,788,155 in new funds. As at the November 30, 1978 year end, working capital stood at \$1,152,718. The Company has no debt. A contingent liability related to the revenue producing properties of its real estate affiliate is more than balanced by the Company's interests in these real estate assets.

Within the past month, Precambrian completed a financing arrangement whereby the Company was authorized to issue, on a private placement basis, a maximum of 850,000 treasury shares at \$2.85 per share for a total of \$2,422,500. The issue was fully subscribed. The funds were raised under an arrangement whereby each investor will incur Canadian exploration or development expenses, as defined in the Income Tax Act on oil, gas or mining properties in which the Company now has or will

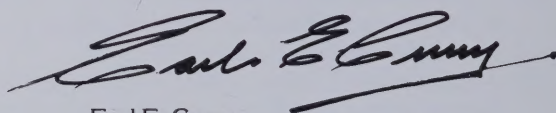
hereafter acquire interests. The Company will act as agent for the investor with respect to expenditure of the investor's funds. The expenses will be incurred by the investor solely as consideration for treasury shares of the Company, and the investor will receive no interest in any of Precambrian's properties with respect to which the expenses are incurred.

The entire \$2,422,500 is now in hand, and when combined with existing working capital, the total funds available to Precambrian are adequate to meet all impending exploration and development programs. Cash flow, while currently modest, is developing steadily and by mid 1980 should reach a level that could sustain ongoing exploration activities.

On March 1, 1979, Mr. T. H. Renner, P.Eng., MBA, joined Precambrian as Executive Vice-President of the Company and was appointed to the Board of Directors. Mr. Renner brings to the Company an excellent background in the oil and gas industry and will be responsible for this segment of Precambrian's operations. We are confident that Mr. Renner's management talents will contribute greatly to the growth and success of your Company.

Your Directors again wish to record their appreciation to the Shareholders for their continued interest and support. We particularly wish to extend our thanks to one of our principal shareholders, Numac Oil & Gas Ltd. for their unfailing assistance and encouragement.

On Behalf of the Board,

A handwritten signature in dark ink, appearing to read "Earl E. Curry", with a stylized flourish at the end.

Earl E. Curry,
President.

April 16th, 1979
Edmonton, Alberta

Oil and Gas

Alberta

West Pembina — ETA Lake Areas

Precambrian acquired a significant acreage position in the active West Pembina area of Alberta through the acquisition of Howard Resources Limited and subsequently through purchase of a privately held working interest in these same lands. As a result, the Company now holds:

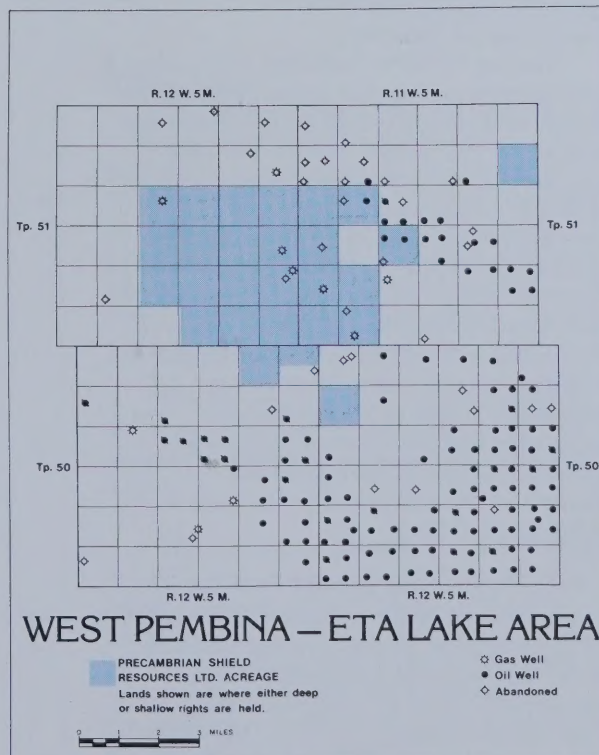
- working interests ranging from 3.33% to 21.74% in the deep Nisku rights contained by 14,200 gross acres of land.
- working interests ranging from 5% to 21.74% in the shallow P&NG rights contained by 12,800 gross acres of land covering the ETA Lake Gething gas field.
- an 18.73% working interest in the ETA Lake gas plant with a rated capacity of approximately 5 MMcf/D.

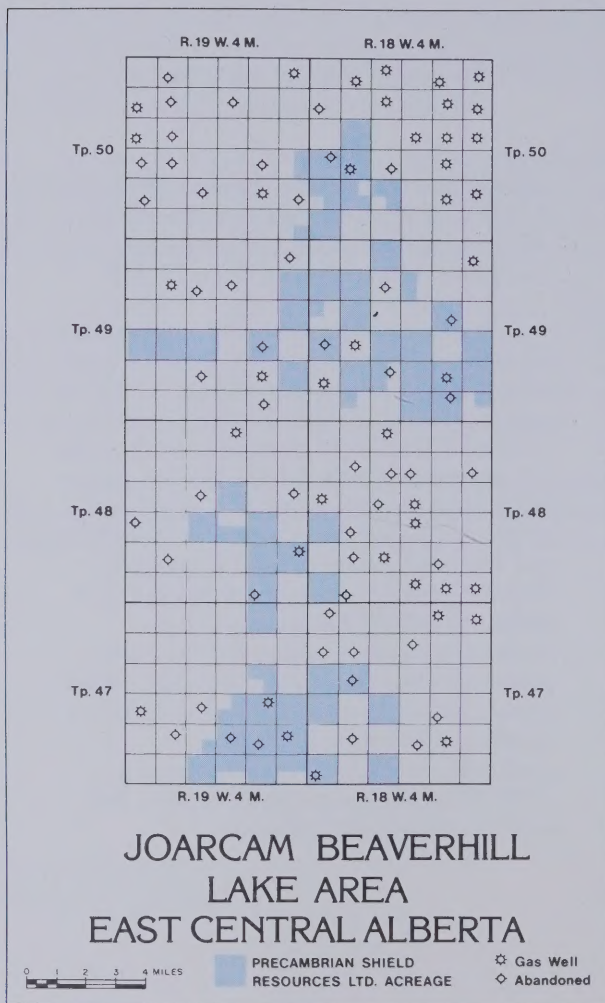
The pace of deep Nisku exploration activity in the West Pembina area continued at a high level throughout the year. During the year, Precambrian participated in the drilling of TP Cyn-Pem 16-12-51-12 W5M which was dry in the Nisku but was cased as a Gething gas well. The operator of these joint lands, Texas Pacific Oil & Gas, has conducted an extensive seismic survey of the area. Total seismic costs are likely to approach \$1,000,000. At this point it would appear unlikely that a second well will be drilled in 1979. The complex and subtle nature of the seismic response requires a reappraisal of processing techniques and existing data before a decision regarding a second well can be made. The Company's deep Nisku lands lie three miles northeast of Chevron's 15-20-50-12 W5M Nisku oil well, and two miles to the southwest of the Champlin-Amoco- Texas Pacific 4-26-51-11 W5M Nisku oil discovery. In view of the close proximity of these discoveries which would suggest the presence of a favorable geologic setting underlying Company land and because of the continued upgrading of seismic technology used to find pinnacle reefs, the Company is hopeful that further deep drilling will occur in 1980

Precambrian holds working interests in three gas wells producing from the ETA Lake Gething gas pool. The 6-5-51-11 W5M well is currently capable of producing approximately 500 Mcf/D and Precambrian interest in the well is 10%. The 7-7-51-11 W5M well, where Precambrian's interest is 10.87% is currently

capable of 2,000 Mcf/D. The recently drilled 7-13-51-12 W5M well appears capable of delivering at least 1,000 Mcf/D and the Company's interest in this well is 21.74%.

The Company's share of this productive capacity is approximately 500 Mcf/D. These wells in the ETA Lake gas field are subject to a gas purchase contract involving contracted reserves of 22.5 Bcf and a daily contract rate of in excess of 3,000 Mcf/D. The Company holds a substantial interest in a large land block which could be prospective for Gething gas. Precambrian intends on aggressively furthering the development of this field with additional drilling, because this play represents a unique opportunity for early production from any further gas discoveries made. Subject to rig availability and ground conditions, Precambrian expects to participate in at least one Gething test in 1979. If this test is successful, another two wells could be contemplated.





East Central Alberta

During 1978 Precambrian entered into a joint venture exploration agreement, with an Agreement Area in excess of 190 townships of land in East Central Alberta. The joint venture participants agree to jointly acquire land and conduct exploratory and development drilling for a two year period starting September 1, 1978. The joint venture Agreement Area is the subject of an area gas purchase contract; and any lands acquired and drilled in this block will have early access to either gas markets or "take or pay" payments. In view of the substantial advantage this gas contract confers, the participants plan on an aggressive accumulation of land and a high level of subsequent drilling.

During the year ended November 30, 1978, Precambrian participated in the drilling of 10 wells in the Kinsella, Beaverhill Lake and Joarcam areas and successfully completed 7 wells for gas production. Typically, the majority of successful wells encountered gas pay in more than one zone.

Precambrian's current working interests in these wells ranges from 10% to 20%. All of the 1978 drilling was on lands farmed out from third parties, and resulted in Precambrian earning interests ranging from 5% to 10% in approximately 44,000 gross acres of prospective lands.

During the 1979 fiscal year, the Company hopes to participate in the drilling of a further 30 wells in the Holmberg, Demay Lake, Joarcam, Beaverhill Lake, Hardisty, Forestburg, Royal and Bruce Areas of East Central Alberta. By participating in this 30 to 35 well program, Precambrian should earn interests in an additional 40,000 to 50,000 gross acres of land. This drilling program was started in March, 1979 with the drilling of four wells of which three were successfully completed as gas wells. This drilling program will resume after road bans have been lifted.

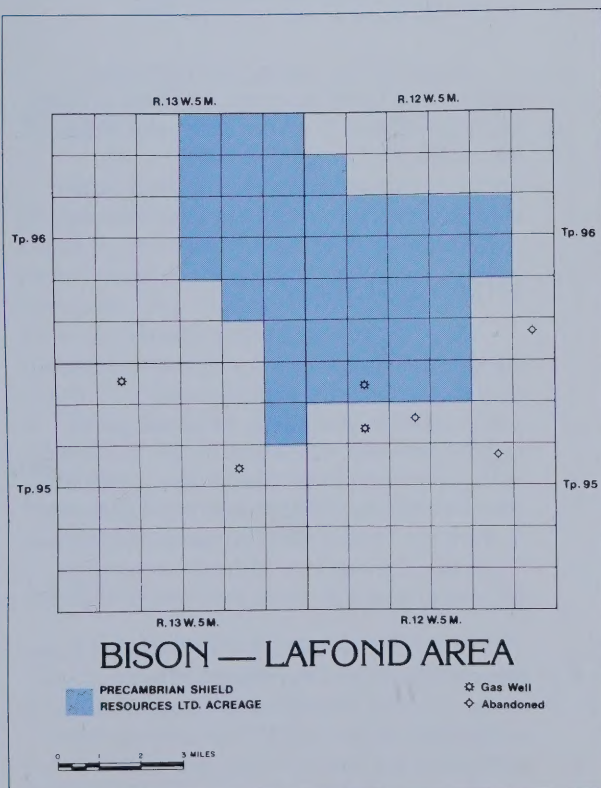
The 1978 drilling program has resulted in the development of significant gas reserves. These reserves, together with reserves additions expected from further exploration and development drilling will justify the construction of a gas plant with a capacity of between 3 MMcf/D to 5 MMcf/D. Construction on this plant is expected to start near the end of 1979.

This East Central Alberta "gas contract" area represents a significant opportunity for the Company to participate in an ambitious relatively low risk exploration program where any discoveries can be used to generate cash flow relatively quickly.

Bison Area

In late 1978, Precambrian concluded a Farmout Agreement with Numac Oil & Gas Limited, whereby the Company has the right to earn a 50% working interest in 25,600 gross acres of P&NG rights. In early 1979, the first commitment well, Numac et al Lafond 6-32-95-12 W5M was successfully drilled and completed as a Bluesky-Gething gas well which tested 587 Mcf/D on drill stem test. This commitment well offset a well in Sec. 29-95-12 W5M which tested 1750 Mcf/D. The farmout lands lie in an area where both the upper and lower Gething zones have been shown gas productive.

A further 2 wells are contemplated for the winter of 1979. If these wells are successful a fourth and final earning well will be drilled to completely earn an interest in the land block. The Company may make further land acquisitions in this area in 1979. If the current geologic prognosis stands up, this Bison prospect will allow the Company to make significant additions to its gas reserves.



Other Areas

Precambrian has a 25% working interest in 1,280 acres of land in the Westlock area and where it participated in the drilling of 11-4-62-1 W5M in 1978. This well was cased as a gas well. During 1978 a well directly offsetting Company lands tested significant gas flows. Precambrian expects to drill another well here once gas markets materialize.

The well Numac et al Judy S 4-6-63-11 W5M, in which Precambrian has an 18.75% interest, was drilled and completed as a gas well.

Precambrian maintains an 18.3% interest in 1,920 gross acres at Ansel (Twp. 53, Rge. 18 W5M) and a 12.72% interest in 2,560 gross acres in the Edson Area (Twp. 54, Rge. 18 W5M). Both of these areas are the subject of active industry exploration interest. Precambrian is performing a geological and seismic review of these lands.

At Wolf Creek (Twp. 51, Rge. 16 W5M) due west of the Eta Lake properties, the Company maintains interests ranging from 10.86% to 21.67% in 2,080 gross acres which are prospective in the deep gas horizons. Precambrian is hopeful that a drilling decision can be made here by the end of 1979.

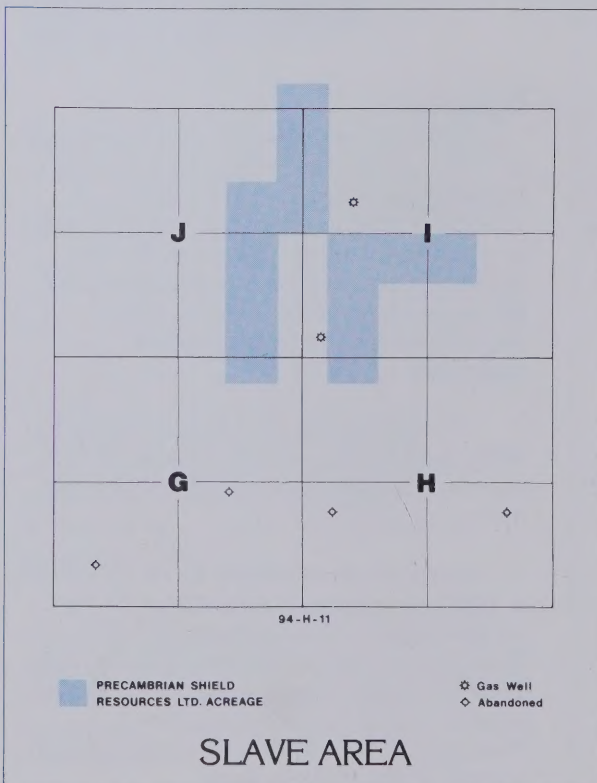
Precambrian also has varying interests in lands at Bashaw, (3,360 gross acres), Morinville (1,500 gross acres), and Busby (2,200 gross acres). These land blocks are well placed in active exploration areas.

British Columbia

Slave

In early 1978, Precambrian participated in the purchase of an 8,205 acre drilling reservation. The Company's interest in this land is 16.67%. The block is located north of the producing Silver gas field, and with the conclusion of a successful industry exploration program in the Slave area, this area could justify the construction of gas transmission facilities.

Originally this block was to have been drilled during late 1978. However, because of a lack of drilling rigs, the drilling of two wells will be postponed to late 1979. As is shown in the accompanying land plat, the block is offset by two gas wells, both of which are within half a mile of the property boundary.



Precambrian is optimistic with regard to the outcome of 1979 drilling.

Goldenrod (Fireweed)

Precambrian participated, with a 10% working interest, in the drilling of two successful triassic gas wells. These wells were drilled on a drilling reservation and the participants have made the lease selection shown on the land plat, and returned the balance of the 7,702 acre reservation to the B.C. Crown. The Operator, Czar Resources Ltd., is currently moving in a completion rig to fracture and test these wells. One of the wells is within two miles of a currently connected gas well. Once a gas purchase contract is secured, the costs to tie in these wells will be small. Further development drilling is contemplated once current testing is completed, and a gas sales contract has been secured.

Other Areas

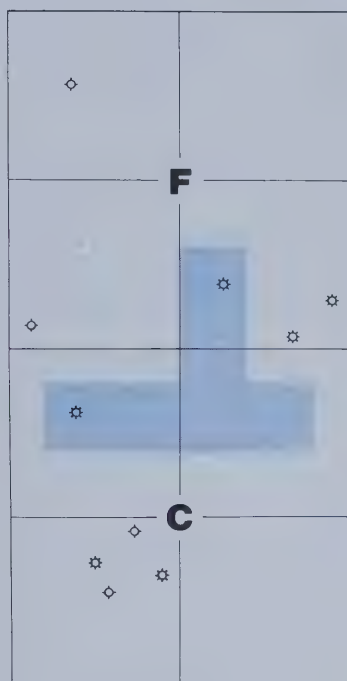
Precambrian, at no cost to it, participated in the drilling of a well at Sierra Sahtaneh which was subsequently abandoned. Because of the encouraging geologic environment, Precambrian has participated in the acquisition of additional land in this area. Drilling in offset locations to current Company land holdings appears to have been successful. Once land acquisitions have been completed, further drilling will be initiated, likely during the winter of 1979-1980.

Precambrian has a 12½% working interest in a 1,600 acre block of land at Rigel, and participated in an unsuccessful well on this acreage during 1978. Additionally, another parcel of 652 acres at Rigel, where the Company has a 25% working interest, remains to be tested.

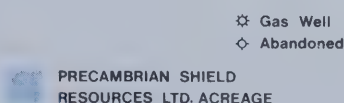
Drilling Activity

The past fiscal year has been a successful first year for the Company in the oil and gas industry. Precambrian participated in the drilling of fifteen gross wells to the end of November, 1978. Eleven of these wells were successfully completed. Seven of the successful wells were gas wells in the East Central Alberta gas contract area. Typically, the majority of these seven wells were successful in more than one formation.

Since November 30, 1978, Precambrian has participated in the drilling of eight gross wells, of which five wells were successfully completed as gas wells. Four of these five successes are subject to existing gas purchase contracts.



GOLDENROD (FIREWEED) AREA



Reserves

Based on an evaluation by an independent consulting firm, and estimates made by Precambrian staff, the Company's proven reserves of natural gas as at November 30, 1978 is estimated at 5,109 MMcf (before provision for crown and overriding royalties). Based on drilling since November 30, 1978 and because of the level of 1979 drilling, Precambrian expects reserves to significantly increase during the 1979 fiscal year. A significant proportion of these 1979 reserves additions will be subject to gas purchase contracts.

Land

During the fiscal year ended November 30, 1978, the Company acquired substantial land interests which increased the Company's land holdings to 82,400 gross acres of petroleum and natural gas rights in both Alberta and British Columbia.

Subsequent to the November 30, 1978 year end, Precambrian increased its land holdings by an additional 42,000 gross acres. Precambrian is currently involved in farmout negotiations which, if they are successful, could significantly increase the Company's land inventory. It will be a Company policy to rapidly build its land inventory.

General

The year ended November 30, 1978 has been a successful first year for Precambrian in the oil and gas industry. Ongoing land acquisition and drilling activity should contribute to a more successful 1979. The Company is of the conviction that small Canadian owned companies such as Precambrian can successfully compete in the oil and gas industry. At our stage of development this requires a careful dedication of funds to projects which will contribute early cash flow. A view to the medium and longer terms requires that Precambrian begin accumulation of a substantially enlarged land position. The Company intends to diversify its exploration risk by not over-exposing it to the results of any one exploration project. Typically, Precambrian will attempt to maintain working interests in the range of 15% to 30% in any one exploration project.

To complement the Company's exploration efforts, Precambrian will attempt to acquire producing reserves of oil and gas. We recognize the intense competition involved in the acquisition of oil and gas properties which has resulted in high prices. However, with the application of in-house expertise and because of an ability to make quick considered decisions, the Company is confident that a profitable acquisition will be made.

One of the key ingredients to the success of any company in the oil industry is the quality and enthusiasm of its employees. During 1979, the Company intends on adding to its staff in the geological and engineering areas. Insistence on well qualified and aggressive individuals will require that the Company develop and make available innovative compensation schemes. The Company is looking forward to the positive impact that new employees will make towards achieving its ambitious asset growth goals.

Mining

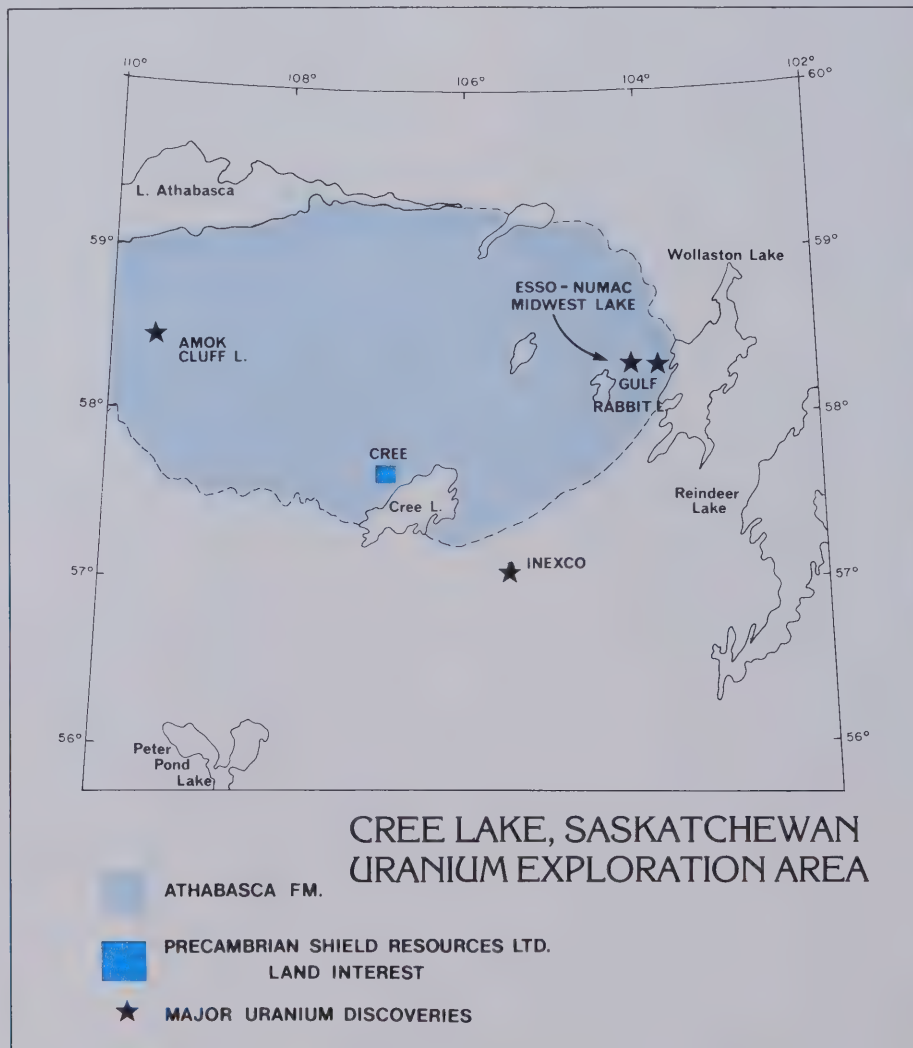
Project Geochem, (British Columbia)

Company personnel conducted a geochemical reconnaissance program over selected areas of Southern British Columbia in the 1978 field season. Sufficient encouragement was obtained to warrant substantial follow-up and expansion of the program during the 1979 field season. This program is 100% funded by Precambrian and represents the main company operated mining exploration venture in 1979.

Cree Lake, (Saskatchewan)

During the year the Company entered into a joint venture agreement with Numac Oil & Gas Ltd. and Esso Resources Canada Limited whereby the three companies can

earn a 75% interest in two large permits totalling some 365,000 acres located on the southern rim of the Athabaska sandstones, between Amok's Cluff Lake and Inexco's Key Lake uranium orebodies. Precambrian can earn a 10% working interest in the entire acreage. The Saskatchewan Mining Development Corporation holds a 25% interest in the permits. The operator of the joint venture, Esso Resources, along with Numac and others were the discoverers of the spectacular uranium orebody at Midwest Lake. The Athabaska Sandstone Basin is proving to be a most prolific hunting ground for uranium orebodies. This participation affords Precambrian exposure to large land holdings in the right geological environment under the operating management of a major company with proven expertise and success in the area. Some preliminary airborne work has been completed and exploration will commence in the Spring. Commitments to the property vendor call for a minimum expenditure of \$150,000 in 1979.



Kenyon Creek Joint Venture (Yukon Territory)

Precambrian holds a one-third interest in this gold placer mining venture on Kenyon Creek in the Western Yukon, the earnings of which are subject to a 30% net profits royalty to the lessor of the property.

During the brief 1978 seasonal mining period, the joint venture generated gross revenues of \$861,000 from the production of 3,472 fine ounces of gold resulting in a cash flow of approximately \$450,000. When taking into account the loss incurred in the initial production year of 1977 and lessor's royalties, the net effect is that all advances to the joint venture have been recovered and the net profits are reflected in the ownership of a substantial amount of mining equipment.

The short summer period in which profitable production can be achieved utilizing standard placer mining techniques have led management to the opinion that further participation in this joint venture is unwarranted and that the necessary time and effort would be better directed to projects holding greater potential. Negotiations were entered into whereby Precambrian would surrender its interest in the joint venture for a fixed cash payment and it is expected that this transaction will be concluded in the near future.

Selwyn Project, (Yukon Territory)

The main holdings of this joint venture are the PAS and GULL claim groups which adjoin the two major but only partially explored mineralized zones owned by Placer Development Ltd. and Essex Minerals Co., in the Howard's Pass area, 100 miles northeast of Ross River, Yukon Territory. The Placer-Essex lead-zinc deposits are said to contain several hundred million tons grading 8-12% including many higher grade sections.

Precambrian (25% participating interest) and its partners in the joint venture, Cyprus Anvil Mining Corporation, Cima Resources Ltd., and Numac Oil & Gas Ltd., carried out a limited drilling program in 1974 on the PAS group but continue to defer further expenditures until the economics of the Howard's Pass deposits are improved and the road connecting Howard's Pass with the Yukon road system brings cheap transportation to the area.

Matson Creek Project, (Yukon Territory)

Precambrian holds a 30% interest in this joint venture in association with Numac Oil & Gas Ltd. and Bethlehem Copper Corporation. The joint venture has acquired, by option and staking, a 194 claim block southwest of Dawson City, Yukon. The claims are located on the flank of a basin of mixed sedimentary and volcanic rocks — similar basins in the south-central and "Quesnel Trough" areas of British Columbia contain uranium deposits. Preliminary geological reconnaissance has been carried out and a plan of exploration is currently under discussion.

General

No work was performed during the year on the several claim groups held by the Company in various areas of the Northwest Territories.

Several mining properties were examined, including three gold prospects in the U.S.A., but no options were negotiated due to lack of merit or ownership complications.

Your Company's geological personnel have several property examinations scheduled for 1979 in the course of Precambrian's continuing search for properties with economic potential.

Real Estate

Bellanca Developments Ltd.

Precambrian owns 21.6% of the outstanding shares of Bellanca Developments Ltd., a commercial real estate company whose activities are entirely in the Canadian north, principally in the City of Yellowknife, Capital of the Northwest Territories.

Bellanca's third commercial complex in Yellowknife, known as "Scotia Centre", was constructed during the year. The first phase of the development consisting of three levels of retail stores was opened in February, 1979 and is 60% leased. The second phase of Scotia Centre will add nine additional floors for future office needs.

The "Bellanca Building", a modern 10-storey office building, was completed in 1974 and is 100% leased.

The "Precambrian Building", which includes a 700 seat twin-cinema, is a prestige 11-storey office building completed in 1977. The building is largely rented with leasing negotiations underway for all remaining space. The twin-theatre operation is both owned and operated by Bellanca and receives strong local support.

During the year Bellanca purchased a 10 acre site offsetting the downtown area of Yellowknife and subsequently received "approval in principle" from the City of Yellowknife to develop a \$6,000,000 to \$7,000,000 shopping centre. A number of considerations including the finalization of agreements with the City of Yellowknife and head leasing of space must be resolved before a construction commitment is made.

Bellanca owns a 75% interest in an entire city block in the downtown area of the City of Whitehorse, Capital of the Yukon Territory. Plans for the development of this valuable property have not been finalized but studies and negotiations for the development or disposition of this property are continuing.

Scotia Centre



The importance of the Company's investment in Bellanca is not apparent from Precambrian's Financial Statements as the Company follows the equity method of accounting for this investment. However, an expression of Bellanca's growth is reflected by projected gross revenues for 1979 of \$2,650,000 as compared to \$2,010,534 in 1978 and \$1,310,505 in 1977. Book value of Bellanca's assets exceed \$12,000,000 — an amount substantially below market value.

The Bellanca Building (Rear View)



Christina Lake

In March, 1979 the Company obtained final approval on its second small subdivision at Christina Lake, an attractive retirement and recreation area in Southern British Columbia. Precambrian had previously developed and sold a small subdivision in the same area.

The new subdivision is comprised of 7 lots, the sale of which will provide \$225,000 in gross revenues in 1979.

The Precambrian Building and Twin Theatres



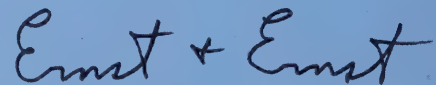
Auditors' Report

To the Shareholders
Precambrian Shield Resources Limited and Subsidiary

We have examined the consolidated balance sheet of Precambrian Shield Resources Limited as at November 30, 1978 and the consolidated statements of operations and deficit, changes in financial position and deferred exploration and related expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1978 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the accounting policy regarding capitalization of costs to revenue producing properties of the affiliate, referred to in Note F to the financial statement, on a basis consistent with that of the preceding year.

Edmonton, Alberta
March 22, 1979



Chartered Accountants

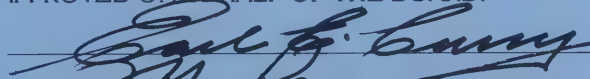
Consolidated Balance Sheet

Precambrian Shield Resources Limited and Subsidiary

	November 30 1978	1977 (Note F)
Assets		
Current Assets		
Cash	81,192	\$ 33,831
Term deposits	1,007,966	382,000
Accounts receivable	15,415	1,982
Land held for resale and development — at cost	143,151	130,698
Total Current Assets	1,247,724	548,511
Investments — Note A		
Affiliated company	236,597	220,106
Joint venture	84,352	-0-
	320,949	220,106
Property and Equipment		
Petroleum and natural gas properties — Note A	2,392,505	121,852
Mineral claims — Note A	75,006	75,008
Production and other equipment — at cost, less allowances for depreciation (1978 — \$18,858; 1977—Nil)	164,937	16,106
	2,632,448	212,966
Deferred Exploration and Related Expenditures	361,205	527,898
	\$4,562,326	\$1,509,481
Liabilities And Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 95,006	\$ 986
Allowances for losses of joint venture — Note A	-0-	36,397
Total Current Liabilities	95,006	37,383
Shareholders' Equity		
Common Stock, no par value:		
Authorized 10,000,000 shares; issued		
1978 — 7,173,921 shares (3,074,103 shares in current period); 1977 — 4,099,818 shares —		
Notes B and D	4,480,118	1,345,205
(Deficit) retained earnings	(12,798)	126,893
	4,467,320	1,472,098
Contingent Liability — Note C	\$4,562,326	\$1,509,481

See notes to consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD:

 Director
 Director

Consolidated Statement of Operations and Deficit

Precambrian Shield Resources Limited and Subsidiary

	Year Ended November 30	
	1978	1977
	(Notes F & G)	
Income:		
Land sales	\$ 17,000	\$ 47,500
Interest	79,312	-0-
Petroleum and natural gas sales	36,726	-0-
Administration	7,200	-0-
Gain on sale of marketable securities	-0-	30,260
	<u>140,238</u>	<u>77,760</u>
Expenses:		
Cost of land sold	7,235	23,532
General and administrative — Note E	151,542	-0-
Depreciation, amortization and depletion	48,510	-0-
Deferred exploration and related expenditures written off	<u>209,882</u>	<u>25,986</u>
	<u>417,169</u>	<u>49,518</u>
(Loss) Income Before Equity in Earnings of Joint Venture and Affiliated Company	(276,931)	28,242
Equity in earnings of joint venture and affiliated company	<u>137,240</u>	<u>6,273</u>
Net (Loss) Income	(139,691)	34,515
Retained earnings at beginning of year	<u>126,893</u>	<u>92,378</u>
(Deficit) Retained Earnings at End of Year	\$ 12,798	\$ 126,893

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Precambrian Shield Resources Limited and Subsidiary

	Year Ended November 30	
	1978	1977
	(Notes F & G)	
Source of Funds		
Net income	\$ -0-	\$ 34,515
Items not affecting working capital:		
Equity in earnings of affiliated company	-0-	(42,670)
Deferred exploration and related expenditures written off	-0-	25,986
Depreciation, amortization and depletion	-0-	617
Total From Operations	-0-	18,448
Issuance of share capital:		
Cash	1,718,215	40,000
Acquisition of subsidiary	1,416,698	-0-
	3,134,913	40,000
Proceeds from disposal of equipment	3,502	-0-
	3,138,415	58,448
Use of Funds		
Net loss	139,691	-0-
Items not affecting working capital:		
Equity in earnings of joint venture and affiliated company	137,240	-0-
Deferred exploration and related expenditures written off	(209,882)	-0-
Depreciation, amortization and depletion	(48,510)	-0-
Loss on disposal of equipment	(2,638)	-0-
Total Used in Operation	15,901	-0-
Petroleum and natural gas properties:		
Acquisition of properties and leases	1,831,502	118,844
Drilling and development costs	468,186	3,008
	2,299,688	121,852
Purchase of production and other equipment	174,444	-0-
Mining exploration expenditures	43,189	42,384
	2,533,222	164,236
Increase (Decrease) in Working Capital	605,193	(105,788)
Working capital at beginning of year	547,525	616,916
Working Capital at End of Year	\$1,152,718	\$ 511,128

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position (Continued)

Precambrian Shield Resources Limited and Subsidiary

	Year Ended November 30	
	1978	1977
	(Notes F & G)	
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash	\$ 47,361	\$ 3,080
Term deposits	625,966	(79,378)
Accounts receivable	13,433	1,982
Land held for sale and development	12,453	103,828
Marketable securities	-0-	(97,917)
	699,213	(68,405)
Increase (decrease) in current liabilities:		
Accounts payable	94,020	986
Allowances for losses of joint venture	-0-	36,397
	94,020	37,383
Increase (Decrease) in Working Capital	\$ 605,193	(\$ 105,788)

See notes to consolidated financial statements.

Consolidated Statement of Deferred Exploration and Related Expenditures

Precambrian Shield Resources Limited and Subsidiary

	Year Ended November 30	
	1978	1977
Mining exploration and development:		
Prospecting and development	\$ 29,648	\$ 25,986
Share of expenditures under exploration agreements	13,541	15,436
	43,189	41,422
Administration:	-0-	962
Net Exploration and Related Expenditures	43,189	42,384
Balance deferred at beginning of year	527,898	511,500
	571,087	553,884
Less amounts written off	209,882	25,986
Balance Deferred at End of Year	\$ 361,205	\$ 527,898
Summary:		
Exploration expenditures, less amounts transferred to deficit on abandonment of mineral claims	\$ 338,616	\$ 497,854
Administration	170,447	177,902
Interest income and other recoveries	(147,858)	(147,858)
Deferred Exploration and Other Related Expenditures	\$ 361,205	\$ 527,898

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Precambrian Shield Resources Limited And Subsidiary November 30, 1978

Note A — Significant Accounting Policies

Principles of Consolidation: The financial statements include the accounts of Howard Resources Ltd., a wholly owned subsidiary. All inter-company transactions and accounts have been eliminated.

Investment in Affiliated Company: The Company follows the equity method of accounting for its investment in its affiliate. Under the equity method, the Company's investment is carried on the balance sheet at cost and adjusted for its undistributed share of earnings or losses. The Company's share of the net earnings or loss is reflected to December 31, 1978, the fiscal year end of the affiliate, rather than when realized through dividends. The investment is reduced when dividends are received.

Investment in affiliated company:

Bellanca Developments Ltd.:

Shares — representing 21.6% interest

Cost

Equity in accumulated earnings

Debentures

	November 30 1978	1977
	\$ 65	\$ 65
	<u>106,532</u>	<u>90,041</u>
	106,597	90,106
	<u>130,000</u>	<u>130,000</u>
	<u>\$236,597</u>	<u>\$220,106</u>

Joint Venture: The Company records its investment in the joint venture on the equity basis. The Company's proportionate share of income is reflected to December 31, 1978, the fiscal year end of the joint venture.

Petroleum and Natural Gas Properties:

The Company follows the full cost method of accounting. All costs relating to the exploration and development of oil and gas reserves are capitalized. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss. Depletion is computed on the basis of units of production based on estimated proven oil and gas reserves.

Mineral Claims: Mineral Claims include interests varying from ten to fifty per cent acquired through participation in exploration agreements and issuance of common shares.

Note B — Common Stock

During the year ended November 30, 1978, the Company issued 1,192,103 shares for a cash consideration of \$1,788,155, less the costs of the issue, and also issued 1,882,000 shares valued at \$1,416,698 to acquire all the outstanding stock of Howard Resources Ltd.

Note C — Contingent Liability

The Company is contingently liable as guarantor of indebtedness of Bellanca Developments Ltd. in connection with the construction of revenue producing properties amounting to \$1,148,510.

Note D — Acquisition of Subsidiary

Effective December 1, 1977, the Company acquired all the outstanding stock of Howard Resources Ltd., a private Alberta oil and gas company. The Company accounted for the acquisition by the purchase method and assigned the excess of the purchase price over assets acquired, less a bank loan of \$125,000, to the petroleum and natural gas properties as valued by an independent appraiser at \$1,416,698. The consideration given was 1,882,000 common shares.

Note E — Remuneration

Remuneration to directors and officers, four of whom are employees of the Company, for the current year amounted to \$78,957 (1977 — \$55,417).

Note F — Change in Accounting Policy of Affiliate

The Company's investment in the affiliated company has been restated to reflect a change in the affiliate's method of accounting for revenue producing properties. The effect of the adjustment is to increase 1977 income and retained earnings by \$43,071.

Note G — Statement of Operations and Deficit

In the previous year, the Company did not prepare a statement of operations and deficit but included the items in the statement of retained earnings. The comparative amounts have been restated to conform with the current year's presentation.

Note H — Financial Statement Approval

Management approved the financial statements on March 22, 1979.

